

**Limited Audit of the Fiscal Year 2004
Federal Managers' Financial
Integrity Act Section 2 and Section 4
Assurance Statements
Report Number: A040239/A/F/F05003
November 15, 2004**



U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

November 15, 2004

Reply to Eugene L. Waszily
Attn of: Assistant Inspector General for Auditing (JA)

Subject: Limited Audit of the Fiscal Year 2004 Federal Managers' Financial Integrity Act Section 2 and Section 4 Assurance Statements
Report Number A040239/A/F/F05003

To: David L. Bibb
Deputy Administrator (AD)

This report presents the results of the Office of Inspector General's (OIG) limited Audit of the Fiscal Year 2004 Federal Managers' Financial Integrity Act (FMFIA) Section 2 Assurance Statements, and the OIG's limited audit of the Fiscal Year 2004 FMFIA Section 4 Assurance Statement prepared by the Chief Financial Officer (CFO). The assurance statements prepared by the Regional Administrators (RAs) and the Heads of the Services and Staff Offices (HSSOs) are used by the Management Control Oversight Council as a basis for developing the Administrator's FMFIA Assurance Statement to the President and Congress. The objectives of the audit were to determine whether the Section 2 Assurance Statements as prepared by the RAs and the HSSOs, and whether the Section 4 Assurance Statement as prepared by the CFO adequately disclosed all known control weaknesses and non-conformances in the Agency's programs, operations, and systems.

To accomplish these objectives, we reviewed internal and external audit reports, the FMFIA Section 2 and Section 4 Assurance Statements that were submitted by the RAs and HSSOs, and the findings noted to date by PricewaterhouseCoopers LLP, an independent public accounting firm, in their Audit of GSA's Fiscal Year 2004 Financial Statements.

The audit was performed in accordance with generally accepted government auditing standards from August through October 2004. However, we did not perform an assessment of the internal control structure over the agency's FMFIA evaluation and reporting process. Accordingly, we do not express an opinion on the adequacy of the basis used in the preparation of the assurance statements submitted by the RAs and HSSOs.



Results of Audit

In reviewing those management and systems control weaknesses reported by management of the General Services Administration (GSA) in accordance with Section 2 and Section 4 of FMFIA, and the audits performed by the OIG and other external organizations, we believe the Agency's weaknesses generally fall into four categories: Federal Technology Service (FTS) contracting practices, construction in progress, budgetary reporting process, and the implementation of GSA Preferred. We also reviewed the status of outstanding prior year weaknesses, including those reported through the FMFIA process, as well as the material weaknesses and reportable conditions identified through the financial statement audit process in order to determine the impact these weaknesses had on the Agency's management and systems controls for Fiscal Year 2004.

Further, we reviewed a number of additional management and systems control issues, including reconciliations of intragovernmental balances, GSA's progress in implementing the Federal Information Security Management Act, and GSA's awards program.

Management Control and Systems Control Issues

FTS Contracting Practices

The OIG's assessment of GSA's Major Management Challenges for Fiscal Year 2004, a component of the annual Performance and Accountability Report, continues to identify procurement activities as one of the major challenges facing the Agency. This assessment is supported by the results of an audit issued by the OIG in January 2004 which raised significant concerns over the contracting practices of the FTS's Client Support Centers (CSCs). The OIG's report on the contracting practices of the FTS CSCs, in three of GSA's Regions, disclosed numerous instances in which CSC officials breached Government procurement laws and regulations, and processed procurement transactions for goods and services which fell outside of the Information Technology Fund's legislatively authorized purpose. The auditors found that the issues identified during their testing stemmed from an ineffective system of internal management controls, CSC personnel sacrificing adherence to proper procurement procedures in order to accommodate customer preferences, and a culture that emphasized revenue growth. Based upon the results of the review, GSA's Administrator and the Commissioner of FTS requested that the OIG initiate audits of the FTS CSCs for all other GSA Regions. These reviews are currently in process.

The issues identified in this area to date have prompted the HSSOs in the FTS and the Office of the Chief Financial Officer (OCFO), and the RAs in the New England, Great Lakes, Heartland, Greater Southwest, Pacific Rim, Northwest Arctic, and National Capital Regions to raise FTS contracting practices as an

area of concern in their Fiscal Year 2004 assurance statements. In addition, PwC will identify the contracting practices in the CSCs as a reportable condition in its Financial Statement Audit Report, and will include the issue as a violation of laws and regulations. It should also be noted that in the opinion of GSA's Office of General Counsel, the inappropriate use of the IT Fund identified in the OIG's audit resulted in two violations of the Antideficiency Act. These violations will also be addressed in PwC's Financial Statement Audit Report.

Construction in Progress

The controls over transferring substantially complete Construction in Progress (CIP) projects have become the focus of increased concern during Fiscal Year 2004. In September 2004, the OIG issued an alert report identifying a significant classification error in GSA's Fiscal Year 2003 financial statements resulting from the adjusting entry performed in an effort to accurately disclose the amount of CIP projects that should be considered as complete. Additionally, for the fourth straight year, PwC will identify the need to improve the controls over transferring substantially complete CIP projects as a reportable condition in its Financial Statement Audit Report. While PwC's recurring findings are noted in the assurance statement prepared by the Commissioner of the Public Buildings Service, the OIG's alert report coupled with the reportable condition identified by PwC indicate that significant management attention needs to be turned to this issue in order to ensure it is fully addressed.

Budgetary Reporting Process

PwC noted significant weaknesses regarding GSA's budgetary reporting process. To date, GSA's subsidiary systems are not integrated or configured to support budgetary reporting, placing a significant reliance on manual processes. However, these manual processes are not well documented and lack sufficient monitoring controls. As a result, PwC found deficiencies related to the prior year recoveries within the Information Technology Fund, a significant error in the reporting of the Statement of Budgetary Resources for the General Supply Fund as of June 30, 2004, and that the manual processes are not performed in a timely manner. PwC will report these weaknesses in the budgetary reporting process as a reportable condition in their Financial Statement Audit Report.

Implementation of GSA Preferred

In June of 2004, FTS introduced the new GSA Preferred system on a limited basis in the Mid-Atlantic and Rocky Mountain Regions. GSA Preferred is a third generation system designed to provide FTS associates and Federal clients with real-time access to acquisition, financial, project, program, and contracting information. In addition, GSA Preferred has been designed to replace four legacy systems within FTS in an effort to integrate FTS business processes, reduce legacy system complexity, and improve the reliability, integrity, and

accessibility of data. However, during the limited implementation of the system, FTS management encountered a number of problems. As a result, the RAs in both the Mid-Atlantic and Rocky Mountain Regions identified the GSA Preferred implementation as an area of concern.

Additionally, in advance of the limited roll out of GSA Preferred, an audit report was issued by the OIG identifying several areas of project and technical risk in the system, which the auditors felt required prompt management attention. The audit found that initial project cost and schedule estimates had increased, actions were needed to incorporate the required security controls for the system, obstacles remained that had the potential to hinder successful system implementation, and the system performance goals were not consistently measurable. Also, as GSA Preferred interfaces with GSA's financial system of record, Pegasys, PwC performed limited testing of the implementation as part of their Fiscal Year 2004 audit of GSA's financial statements. This testing identified a number of control issues related to the implementation of GSA Preferred.

Prior Year Weaknesses and Non-Conformances

In Fiscal Year 2003, GSA management reported three instances of systems non-conformance regarding reconciliation and monitoring controls, network and application security controls, and systems development, implementation, and change controls. PwC performed testing on each of these issues during Fiscal Year 2004.

PwC found significant improvements in GSA's reconciliation and monitoring controls, though issues continue to remain with the budgetary reporting process as discussed above. The CFO's Fiscal Year 2004 FMFIA Section 4 Assurance Statement also identified several issues regarding compliance with Federal financial requirements in the area of budgetary accounting. However, these issues did not preclude the CFO from reaching a determination that GSA's financial systems are in substantial compliance with Section 4 of FMFIA.

During Fiscal Year 2004, PwC's testing found that the Agency as a whole has taken the necessary steps to address the reportable condition regarding network and application security controls, though issues in this area continue to remain with the Federal Supply Service. As a result, this reportable condition will remain for FSS in PwC's Fiscal Year 2004 report. PwC's testing also indicated that change controls continue to be a reportable condition. PwC cited their findings on the limited implementation of GSA Preferred as further evidence that the Agency needs to take action to improve the development, implementation, and change controls over its financial systems.

Additional Management and Systems Control Issues

Reconciliations of Intragovernmental Balances

Office of Management and Budget (OMB) Bulletin No. 01-09 requires agencies to reconcile intragovernmental asset, liability, and revenue amounts with their trading partners, and per OMB Memorandum M-04-22, agencies are required to submit intragovernmental balance information by trading partner to the Department of the Treasury. To date, GSA has not reconciled its non-fiduciary intragovernmental activities and balances. As a result, PwC will report this as a reportable condition in their Fiscal Year 2004 financial statement audit report, because the Agency was unable to fully perform reconciliations of intragovernmental balances with its trading partners.

GSA's Implementation of the Federal Information Security Act of 2004

As required, the OIG performed the Fiscal Year 2004 review regarding GSA's progress in implementing the Federal Information Security Management Act (FISMA). The purpose of FISMA is to provide a framework for securing Federal information systems. The report states that through the initiation of new measures to better secure GSA's systems, including the publication of procedural and technical guides and the development of training tailored to specific roles, GSA's Information Technology (IT) Security Program continues to improve. However, the auditors identified a number of key areas where improvements are needed. Specifically, the auditors reported that the Agency's IT Security Program inventory of systems is not complete, background checks were not completed for contractors supporting GSA's systems, the security of contractor-provided systems was not adequately monitored, the Agency's certification and accreditation process was not consistently utilized, and plans of action and milestones were not effectively used to manage previously identified IT security weaknesses in two of nine systems reviewed.

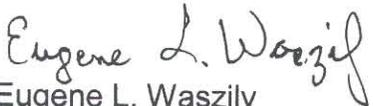
Anti-Deficiency Act Violation in the Working Capital Fund

A violation of the Anti-Deficiency Act occurred as of March 31, 2004, in the Working Capital Fund. The violation resulted from a temporary cash shortfall in the amount of \$968,631.49, which occurred when the Agency's administrative support offices did not transfer cash to the Fund in a timely enough manner to cover their obligations. This violation will be addressed in PwC's Financial Statement Audit Report.

GSA's Awards Program

During Fiscal Year 2004, the OIG performed a review of GSA's awards program, which found that significant problems continue to exist in the management controls over the program. Weaknesses have occurred in such areas as repetitive awards, overuse of awards leading to a substantial increase in the amount of associates' compensation, lack of supporting documentation and inadequate justification for awards being made, and inappropriate delegation of approving authority being granted to clerical staff.

We appreciate the cooperation and courtesies extended to our staff during this audit. Should you or your staff have any questions, please contact Kristin Wilson on (202) 501-0006 or me on (202) 501-0374.


Eugene L. Waszily
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